

HOLDING PLC

Holding plc acquired 18 million of Subside plc's ordinary shares on 1 January 20X9 at a cost of £10 per share. Holding plc's accounting year end is 30 September, the year end of Subside plc prior to its acquisition had been 30 June. In order to comply with the relevant requirement of FRS2 'Accounting for Subsidiary Undertakings' Subside plc has changed its year end to 30 September and prepared its financial statements for the 15 months period to 30 September 20X9. The following are the profit and loss accounts of both companies:

	<i>Holding plc</i> <i>12 months to</i> <i>30 September 20X9</i> <i>£ million</i>	<i>Subside plc</i> <i>15 months to</i> <i>30 September 20X9</i> <i>£ million</i>
Turnover	350	280
Cost of sales	<u>(200)</u>	<u>(170)</u>
Gross profit	150	110
Operating expenses	(72)	(35)
Interest payable	(10)	(5)
Dividend from Subside plc	<u>15</u>	<u>-</u>
Profit before tax	83	70
Taxation	<u>(22)</u>	<u>(10)</u>
Profit after tax	61	60
Dividends - final proposed	(25)	
- final paid (15 September 20X9)		<u>(20)</u>
Retained profit for the period	<u>36</u>	<u>40</u>
The share capital and reserves of Subside plc at 30 June 20X8 were:		
	£ million	£ million
Ordinary shares of £1 each		24
Reserves:		
Profit and loss reserve	64	
Revaluation reserve	20	<u>84</u>
		<u>108</u>

The following information is relevant:

- In the post acquisition period Holding plc sold goods to Subside plc at a price of £30 million. Holding plc had marked up the cost of these goods by 25%. One third of these goods were still held in stock by Subside plc at 30 September 20X9.
- The revaluation reserve of Subside plc relates to an investment property carried at its fair value. It was last revalued on 30 June 20X8. At the date of acquisition the value of the property had increased by a further £4 million.
- The only other fair value adjustment that is required in respect of the acquisition is in relation to the plant and equipment of Subside plc. At

1-1-X9, the book value of the plant and equipment was £50 million whereas the fair value of the assets was estimated at £90 million. The depreciation policy of the group is that such assets are depreciated over a 5 year period.

- (d) Subside plc's business activities are not seasonal in nature and therefore it can be assumed that profits, and the related dividend, accrued evenly throughout the 15 month period to 30 September 20X9. Dividends paid out of pre-acquisition profits should **not** be treated as income in the consolidated profit and loss account.
- (e) Goodwill is to be amortised on a straight-line basis over six years using time apportionment in the year of acquisition. This should be treated as an operating expense.

Required

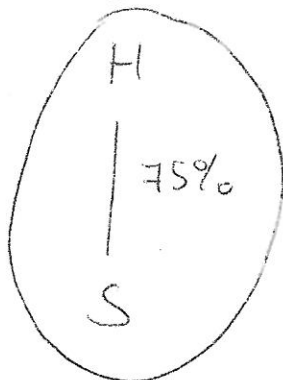
- (a) Calculate the consolidated goodwill in respect of the acquisition of Subside plc.
- (b) Prepare the consolidated profit and loss account of Holding plc for the year to 30 September 20X9.

CONSOLIDATED P+L ACCOUNT

	₹m
Turnover $(350 + [9/15 \times 280] - 30)$	488
COST OF SALES $(200 + [9/15 \times 170] - 30 + 2)$	(274)
GROSS PROFIT	<u>214</u>
OPERATING EXPENSES $(72 + [9/15 \times 35] + 6 + 6)$	(105)
OPERATING PROFIT	<u>109</u>
INTEREST PAYABLE $(10 + [9/15 \times 5])$	(13)
PROFIT BEFORE TAX	<u>96</u>
TAX $(22 + [9/15 \times 10])$	(28)
PROFIT AFTER TAX	<u>68</u>
MINORITY INTEREST (Sch 2)	(8)
PROFIT ATTRIBUTABLE TO THE GROUP	<u>60</u>
DIVIDENDS	(25)
RETAINED PROFIT FOR THE YEAR	<u><u>35</u></u>

WORKINGS

W1 Group Structure



- Of dividend declared by S, £15m is receivable by H
- £6m of this is pre acquisition ($\frac{6}{15}$)

W2 Net Assets of Subside Ltd

	At Acq'n £m	At b / s date £m
Share Capital	24	24
Profit and Loss Account :		
At 1-7-20X8	64	
Profit for 6 months ($\frac{6}{15} \times 40m$)	16	
At 30-6-X9		104
Revaluation Reserve	20	20
Fair Value Adjustments :		
Investment Property	4	4
Plant and Equipment -- surplus	40	40
-- additional dep'n on FV surplus ($40 \times \frac{1}{5} \times \frac{9}{12}$)	-	(6)
	<u>168</u>	<u>186</u>

W3 INTER-GROUP TRADING

• DR TURNOVER 30M

CR COST OF SALES 30M

$$\begin{aligned} \bullet \text{ UNP ON STOCK} &= \frac{25}{125} \times 30M \times \frac{1}{3} \\ &= 42M \end{aligned}$$

DR COST OF SALES 2M

CR STOCK (B/S) 2M

CONSOLIDATION SCHEDULES

1/ GOODWILL

	£m
COST OF INVESTMENT $([18m \times 10] - 6)$ (W1)	174
less: SHARE OF NET ASSETS ACQUIRED $(75\% \times 168)$ (W2)	(126)

GOODWILL

48

$\therefore$ AMORTISATION EXPENSE IN THE YEAR 6
 $(48 \times \frac{1}{6} \times \frac{9}{12})$

2/ MINORITY INTEREST (P+I)

	£m
PROFIT AFTER TAX OF S FOR 9 MONTHS $(60m \times \frac{9}{15})$	36

less: ADDITIONAL DVM ON PLANT (W2) (6)

30

$\times 25\%$

8